ATTACHMENT 4

EXPENDITURE OF LOW AND MODERATE INCOME HOUSING FUND TRANSACTION GUIDELINES

CITY OF SAN DIEGO
REDEVELOPMENT AGENCY

City of San Diego
Redevelopment Agency

ccdc

SEDC

Expenditure of
Low and Moderate Income Housing Fund
Transaction Guidelines

Rental		For-Sale
with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	

I. Development Costs

A. Acquisition Costs	Purchase price of property not to exceed independent appraised value, subject to review and approval by Agency		
B. Labor Costs	If Low-Mod Housing Funds are the only source of public funds, do not assume payment of prevailing wages, unless otherwise required by Labor Code Section 1720		
C. Commercial Components	Development costs attributed to commercial components of mixed-use projects should be funded by equity or other non-Low Mod Housing Fund source		
D. Development Costs	Requires evaluation of development costs by Agency third-party consultant for reasonableness		
E. Financing Costs	9% LIHTC: 1%-3% of loan amount 4% LIHTC: 4%-8% of loan amount	1%-3% of loan amount	N/A

	Rental		For-Sale
	with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	
F. Project Contingency	Direct costs: 5% - 10% of direct costs / Indirect costs: 3% - 5% of indirect costs		

II. Developer Fee and Developer Profit

A. Developer Fee	Maximum fee permitted by California TCAC that can be included in eligible basis, as follows: 9% LIHTC: lesser of 15% of eligible basis or $1.4 million 4% LIHTC: lesser of 15% of eligible basis or $2.5 million	2%-5% of direct costs	(see developer profit)
B. Developer Fee Deferral	Up to 20% of Developer Fee First draw on cash flow Subject to repayment with interest within 10 years from date in service	None	None
C. Target Developer Profit	None	Return on Investment (ROI) @ 1%-3% over industry standard cap rates	10%-15% of total development costs excluding land
D. Minimum Cash Equity	N/A	10% of total costs	10% of total costs
E. Target Leveraged IRR (on developer Equity)	N/A	15%-20%	N/A
F. Target Developer Return on Commercial Component	None	Return on Investment (ROI) @ 1%-3% over industry standard cap rates	Return on Investment (ROI) @ 1%-3% over industry standard cap rates

	Rental: with Low Income Housing Tax Credits	Rental: without Low Income Housing Tax Credits	For-Sale

III. Cash Flow Projection

A. Rent Increases	2.5% annually *(adjusted to industry standard annually)*	N/A
B. Vacancy Rates	Not less than vacancy rate identified in appraisal; or Residential @ Year 1: 10-20%; Year 2+ @ 5.0% Special needs and SRO proposals @ Year 1: 20%; Year 2+: 10%; or Commercial varied by location	Commercial varied by location
C. Property Tax Increases	2% annually (except for tax-exempt organizations) Payment In-Lieu of Taxes (PILOT) fee to be considered on a case-by-case basis	N/A
D. Operating Expenses (per unit/per year)	Minimum - TCAC standard * Non-Elevator: $4,000 (SRO); $3,900 (Family); $3,100 (Senior) Elevator: $4,200 (SRO); $4,100 (Family); $3,300 (Senior) Maximum - Industry Standard Current database : $3,200 - $4,800 Includes Maximum Management Fee: $35-$50/unit/month (*depends upon nature of fee and size of project*) * 2009 TCAC Regulations subject to change. Excludes taxes, replacement reserves, services, and monitoring fees	N/A
E. Operating Expense Increases	3.5% annually [excluding taxes and replacement reserves]	N/A

IV. Annual Reserves, Services and Fees

A. Replacement Reserves	**Minimum:** Rehabilitation at $300/unit/year New Construction and Senior Housing at $250/unit/year May vary by lender/investor requirements	N/A
B. Operating Reserves	Evaluated on a case-by-case basis / Primary lender may determine	N/A

Developments will be evaluated on a case-by-case basis. The transaction guidelines based upon State and Federal programs will automatically update as changes occur. Ver. 112007 - Approved May 20, 2008 (R-04282)

Ver. 06.22.2010

	Rental		For-Sale
	with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	
C. SDHC Monitoring Fee	Set-up fee @ $500 Base monitoring fee is $65 per unit for the first 40 units, $55 per unit for each additional unit up to 80 units, and $45 per unit for each additional unit more than 80 units, as illustrated below: 1-40 units/beds @ $65/unit 41-80 units/beds @ $55/unit 81+ units/beds @$45/unit *(Subject to annual increase based on CPI)*		Determined on a project-by-project basis.
D. Service Amenities Annual Budget	Evaluated on a case-by-case basis.		N/A
E. Limited Partner Asset Management Fee	Paid during years 1-15 from project cash flow after debt service prior to payment of a deferred developer fee or distribution of residual receipts. Suggested range at Year 1: $5,000 - $10,000. (Depends upon size and complexity of project).	N/A	N/A
F. General Partner Asset Management Fee	Paid during years 1-55 from project cash flow after debt service and payment of deferred developer fee before distribution of residual receipts. Potential range at Year 1: $10,000 - $20,000 *(Limited Partner and General Partner Asset Management Fees combined shall not to exceed $30,000 in Year 1 - unless otherwise merited by size and complexity of project.)*	N/A	N/A

Developments will be evaluated on a case-by-case basis. The transaction guidelines based upon State and Federal programs will automatically update as changes occur. Ver. 112007 - Approved May 20, 2008 (R-04282)

	Rental		For-Sale
	with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	

V. Supportable Debt (Permanent Loan)

A. Debt Service Coverage Ratio	Minimum: 4% LIHTC: 1.10 - 1.20 9% LIHTC: 1.10 - 1.20 Maximum: Industry Standard	Minimum: 1.10 Maximum: Industry Standard	N/A
B. Loan Term	30-55 years (shorter loan terms may apply subject to constraints imposed by State and Federal financing sources)		N/A
C. Interest Rate	4% LIHTC: 100-300 basis points below conventional industry lending rates 9% LIHTC: Conventional industry lending rates	Conventional Industry Lending Rates	N/A
D. Other Outside Funding Sources	Requirements to pursue other funding sources evaluated on a case-by-case basis. The feasibility/certainty of the financing plan will also be considered.		

VI. Agency Loan Terms

A. Method of Agency Assistance	Land Acquisition / Construction Loan / Permanent Loan / Public Improvements / Others As Negotiated		Land Acquisition / Construction Loan / Public Improvements / Homebuyer Assistance
B. Interest Rate	Applicable Federal Rate depending on source of funds. If not applicable, then: 3.0% simple interest when developer has ability to repay Agency Loan or 0% if proposed use/operation has no income source for repayment - homeless/special needs developments		Terms defined on a case-by case basis.

	Rental		For-Sale
	with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	
C. Disbursement of Funds	To be determined on a case-by-case basis. Consider timing of developer fee disbursement as well as total contribution to the project. Preferred Structure: Funds for property acquisition will be disbursed at closing, prior to construction. After land acquisition, a 50-50 distribution pari passu with construction lender and 10% withheld until project is completed (Certificate of Occupancy)		
D. Term of Loan	55 years		Case-by-case base
E. Repayment of Loan	Determined on a project-by-project basis. Common recommendation: Years 1-40: Agency/Developer 50/50 split of residual receipts Years 41-55: Agency/Developer 80/20 split of residual receipts Balance due at Year 56 Agency portion of residual receipts may be shared with other public agencies in proportion to the respective loan amounts committed by each public agency.		Determined on a project-by-project basis. *Usual recommendation for land acquisition, public improvements and construction loans: Loan repaid upon sale of each unit. Homebuyer Assistance Loans: No repayment as long as restrictions remain in effect. Repayment required if homeowner in default of affordability covenant. Agency right to cure in case of default depends upon financing position.*
F. Participation of other public entities	When another local, public source (such as the San Diego Housing Commission) provides a subsidy to the project along with the RDA, the RDA would expect residual receipts, cost savings, additional proceeds, and foreclosure proceeds to be shared based on a pro rata share of funds disbursed. Allowances may be given to specific transaction structure, timing and use of respective parties' funds and requirements associated with other public funding sources.		
G. Refinance Proceeds	Agency/Developer 50/50 split of net refinancing proceeds *(net refinancing proceeds = proceeds after repayment of outstanding debt, refinancing costs, any funds reinvested in project, and takeout of other third-part funding sources, subject to Agency approval)*		N/A
H. Draw Request	Provided on a monthly basis or as needed.		
I. Performance Bonds	Performance bonds may be suggested.		Performance bonds may be required.
J. Reporting	Developer to provide Agency with copies of construction inspection reports and agree to annual monitoring of affordability restrictions/covenants.		

	Rental		For-Sale
	with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	
K. Tax Credit Applications	Multiple tax credit applications will be considered and negotiated on a case-by-case basis.		N/A

VII. Affordable Housing Provisions

A. Term of Restrictions	Deed restriction for not less than 55 years; or Development reverts to Agency at end of a ground lease not less than 55 years, subject to the provisions of CRL. It is expected that RDA deed restrictions will be senior to all other financing instruments.		Unit shall remain restricted for a period of not less than 45 years from the date of initial escrow closing, subject to provisions of CRL
B. Tenant Eligibility Requirements	Occupants must remain income eligible per the terms of the recorded restrictions and the CRL.		Residence must remain owner-occupied for the term of the Agency Restriction. No primary residence owned in past three years and no other real estate owned.
C. Land Disposition (in cases where the Agency owns land)	Fee conveyance or ground lease, to be determined on a case-by-case basis.		
D. Eligible Households	Households at or below 120% AMI - determined on a case-by-case basis. Very-low and Low-Income figures based on HUD figures for San Diego County, Moderate Income figures based on figures from State of California Department of Housing and Community Development (HCD) for San Diego County.		
E. Calculation of Rents/Sales Prices	Based upon applicable law and most restrictive of revenue source requirements. Using 2009 income limits/regs for example: TCAC rents allowable for units below 50% AMI (even	Based upon applicable law and most restrictive of revenue source requirements.	Based upon applicable law and most restrictive of revenue source requirements.

	Rental		For-Sale
	<u>with</u> Low Income Housing Tax Credits	<u>without</u> Low Income Housing Tax Credits	
F. Coordination with Section-8 Vouchers (tenant-based and project-based)	Tenant-based Section 8: Total rent paid to the owner (by the tenant or from any other source) is limited to the redevelopment agency restricted rent. This avoids over-subsidizing for the units. Project-based Section 8: As long as the tenant is paying no more than the redevelopment agency restricted rent, and the Agency has underwritten the project based upon total rent to be received by the owner (from all sources), the total rent collected by the owner (from all sources) may exceed the redevelopment agency restricted rent - up to the maximum allowed by project-based Section 8 regulations. Underwriting needs to reflect the term of the Project-based Section 8 commitment. *(Other rental subsidy programs would be handled similarly).*		N/A

VIII. Evaluation of Development Team

A. Experience	Development experience in providing affordable housing for low- and moderate-income households of comparable size, scale, and complexity. This will include the physical and financial size and scope of comparable projects.
B. Funding Ability	Demonstrated ability to provide project funding (debt and equity), including current relationship with major lenders, various financial institutions and past funding experiences.
C. Community Support / Design	Demonstrated ability to determine community concerns and desires before design of a project and/or in project design and implementation.
D. Community Support / Use	Demonstrated ability to determine community concerns and desires regarding the proposed residential use of a project, specifically, how the development team has handled adverse community responses to proposed affordable housing projects.
E. Marketing Strategy	Effective strategy for marketing (selling or leasing) the proposed units, affirmative method to provide equal opportunity for housing units and educating potential applicants regarding the terms and conditions of the program.
F. Collaboration	Effective strategy for collaboration with local non-profit organizations for the provision of tenant support services, when appropriate.
G. Number of Projects	To ensure the developer has the capacity to complete projects in the proposed project, the number of projects a developer has in San Diego and the status of those projects may be considered. (Performance may be required before multiple subsidies are granted).

	Rental		For-Sale
	with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	
H. Number of Subsidies	The number of times public subsidies have been provided to the same developer and the cumulative amount of those subsidies.		
I. Completion of Projects	Demonstrated ability to complete affordable housing projects on time and on budget.		
J. Qualifications	Qualifications of the development team and the key individuals proposed for involvement in the development, including the proposed property manager.		
K. Neighborhood Improvement	Demonstrated experience in neighborhood improvement and elimination of blight conditions through new construction and/or rehabilitation.		
L. Public Sector Experience	Experience in working with the public sector in public/private real estate development projects.		

IX. Evaluation of Design, Planning and Urban Form Elements

A. General Design	Project maximizes project density, including the utilization of incentives/bonuses/etc., where feasible.
	Project concept meets or exceeds all development requirements specified for the Site within the Community Plan and/or PDO.
	Project incorporates Crime Prevention through Environmental Design ("CPTED") principles.
	Project demonstrates superior architectural, landscaping and urban design.
	Project embraces the uniqueness of the site/community through the incorporation of art, such as murals, and architectural features, color, texture, etc.
	Project incorporates Universal Design components into the project and complies with the Agency's Universal Design Features - FY 2009 Update memo dated September 4, 2008.

	Rental		For-Sale
	with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	
B. Sustainable Design	Project incorporates sustainable development principles. For example, the use of eco-roofs on Type I, II and III construction projects; LEED certification or equivalent, where feasible; drought tolerant landscaping; etc. Project should strive to meet or exceed minimum standards required by law.		
C. Public Health and Well-being of Residents	Project should strive to meet at least one of the following: Smoke-Free multifamily housing policies, community gardens, transportation alternative programs and mechanisms (bike racks, charging station for electric vehicles, reserved car-sharing space), on-site child care, nutrition programs for tenants, reserved units for supportive housing and/or special needs/formerly homeless tenants; other public health and well-being goals.		
D. Parking	In addition to providing the number of parking spaces required for the project by ordinance, special consideration should be given to security issues and safety elements for parking, including, but not limited to, pedestrian entrance and exits, lighting, open stairwells with clear visibility on each floor landing, and other design elements to ensure the tenant's/public's safety and well-being.		
E. Residential	Residential amenities, including but not limited to, common outdoor open space, common indoor space, private outdoor space (balconies, patios, etc.) should be incorporated into project concepts.		
	Innovative project designs, construction types/methods that result in reduced construction costs and/or owner association fees (when applicable) are encouraged.		
F. Commercial	Commercial spaces should be flexibly-designed to accommodate larger or sub-dividable uses/tenants.		
	Commercial spaces should accommodate retailers and services that serve the essential needs of residents living in the project and surrounding neighborhoods.		
	Ground-floor uses should provide a link to social services where appropriate.		

X. Evaluation of Project and its fit within the Community

A. Priority - Notice	Case-by-case consideration should be given to the priority of each tax credit project in relation to timing and competitiveness of each 9% LIHTC round. At least six months advance notice for projects intending to submit tax credit applications is requested.

	Rental		For-Sale
	with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	
B. Monitoring	Developer agrees to enter into an Agreement with the Agency and the San Diego Housing Commission to monitor the long-term affordability restrictions of the project.		
C. Site Control	The extent to which the developer has site control or is seeking Agency assistance with property acquisition.		
D. Community Fit	Does the project "fit in" with the current community needs (snapshot), as well as those that may develop in the future (big picture)? Consider the extent to which the project meets the goals and objectives of the project area Redevelopment Plan, Community Plan and most current 5-year Implementation Plan.		
E. Project as Catalyst	Will the project serve as a catalyst for other development(s) in the project area?		
F. Market for Proposed Non-Residential Use?	Are there specific tenants identified for the non-residential space or has market support been demonstrated? Is the proposed non-residential space underwritten appropriately?		
G. Revenue Generation and Economic Impact	Will the project take an existing property off of the tax roles? Consider the number of jobs created, the potential for sales tax revenues, the proximity of housing to the job center, etc.		
H. Concentration of housing	Is there a concentration of affordable housing in the surrounding community and/or a lack of other supporting development?		
I. Comments from other disciplines	Have comments from the City Planning, Urban Form, Economic Development Divisions, Development Services, been received and considered?		
J. Cost/Benefit Analysis	Consider the cost/impact of the project in relation to the benefit to the community.		
K. Infrastructure Improvements	What is the extent to which the developer is making infrastructure and/or public facility improvements to benefit the development and/or surrounding community.		
L. Agency Objectives	Does the project meet the broader goals and objectives of the Redevelopment Agency, in its ability to finance and implement projects and its ability to comply with California Redevelopment Law?		